

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ADP-00 NEA-10 IO-12 H-02 L-03 PRS-01

PA-03 USIA-12 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 SAL-01

RSR-01 /165 W

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R 060620 Z APR 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 4275

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USADB

TREASURY FOR FINKEL

E. O. 11652: AD S, DECLAS 10-6-73

TAGS: EAID, EFIN

SUBJECT: CURRENCY REALIGNMENT

REF: MANILA 2249

SUMMARY: ON 5 APRIL BOARD OF DIRECTORS CONSIDERED PAPER ON EFFECTS OF CURRENCY REALIGNMENT IN REGARD TO (A) TRANSLATION OF CURRENCIES AND MAINTENANCE OF VALUE (MOV) AND (B) UNIT OF ACCOUNT. BOARD AGREED TO RECOGNIZE CONTINUING APPLICABILITY OF 31 AUG 1972 BOARD RESOLUTION REGARDING TRANSLATION OF CURRENCIES AND MOV TO PERIOD FOLLOWING DE FACTO DEVALUATION OF U. S. DOLLAR ON 13 FEB 1973, BUT DEFERRED DECISION UNTIL 18 APRIL MEETING ON RECOMMENDATION FOR ADOPTION OF CURRENT U. S. DOLLAR AS BANK' S UNIT OF ACCOUNT EFFECTIVE 13 FEB. GUIDANCE REQUESTED. END SUMMARY

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1. AT 5 APRIL BOARD OF DIRECTORS MEETING, INTENSIVE DISCUSSION WAS HELD ON ADB DOC R20-73 DTD 27 FEB CONCERNING EFFECTS OF CURRENCY REALIGNMENT IN REGARD TO (A) TRANSLATION OF CURRENCIES AND MOV AND (B) BANK'S UNIT OF ACCOUNT. U. S. DIRECTOR NOTED THAT PROCEDURES TO SECURE CONGRESSIONAL APPROVAL TO 13 FEB DOLLAR DEVALUATION MOVING AHEAD MORE RAPIDLY THAN DURING PREVIOUS ROUND. HE SUPPORTED RECOMMENDATIONS IN DOC R20-73 TO RECOGNIZE APPLICABILITY OF 31 COUNTRIES. COMMUNITY RESOURCES WOULD BE TRANSFERRED TO THESE COUNTRIES IF THE EFFECTIVE VALUE OF EXPORTS (DESCRIBED IN THE CABLE) WERE TO FALL BELOW A CERTAIN REFERENCE VALUE. UNDER CERTAIN CIRCUMSTANCES THE CREDITS MADE AVAILABLE WOULD BE REIMBURSABLE. IN OTHER CASES THE TRANSFERRED RESOURCES WOULD BE ON A NONREIMBURSABLE BASIS. END SUMMARY.

2. THE PROPOSAL FOR SPECIAL COMMODITY ARRANGEMENTS TO STABILIZE EXPORT RECEIPTS IN THE ASSOCIATED AND ASSOCIABLE STATES SHOULD, IN THE VIEW OF THE COMMISSION, BE BASED ON THE FOLLOWING THREE PRINCIPLES:

QUOTE (1) NO- INTERFERENCE WITH THE FREE PLAY OF THE MARKET.
(2) AVOIDANCE OF ANY NEW OBSTACLES TO INTERNATIONAL TRADE AND
(3) COMPATIBILITY WITH WORLDWIDE COMMODITY AGREEMENTS WHERE SUCH AGREEMENTS ALREADY EXIST FOR THE SAME PRODUCTS AND THE AVOIDANCE OF ANY OBSTACLES TO THE SUBSEQUENT CONCLUSION OF SUCH WORLDWIDE AGREEMENTS. UNQUOTE

3. UNDER THESE CONDITIONS THE PROPOSED COMMISSION SYSTEM WOULD GIVE A CERTAIN STABILIZATION GUARANTEE TO THE EXPORT RECEIPTS OF THE ASSOCIATED COUNTRIES LIMITED OFFICIAL USE

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COVERING THEIR TRADE WITH THE COMMUNITY. SUCH A GUARANTEE WOULD VARY DEPENDING ON THE DEGREE OF DEPENDENCE OF THESE COUNTRIES ON SPECIFIC PRODUCTS.

4. TO MEET THIS OBJECTIVE THE COMMISSION PROPOSES THE FOLLOWING:

QUOTE (1) THAT A REFERENCE PRICE BE FIXED ON A PRODUCT-BY- PRODUCT BASIS FOR QUOTAS ESTABLISHED FOR EACH

COUNTRY.

(2) THAT A GUARANTEE BE GIVEN TO BENEFICIARY COUNTRIES OF A TRANSFER OF FINANCIAL RESOURCES EQUAL TO THE DIFFERENCES BETWEEN THE EFFECTIVE VALUE OF EXPORTS TO THE COMMUNITY (WORLD PRICE X EXPORTED QUANTITIES) AND THE REFERENCE VALUE OF THESE EXPORTS (REFERENCE PRICE X QUOTA).

(3) THAT THE TRANSFER OF RESOURCES BE EFFECTED, IN PRINCIPLE, BY MEANS OF THE OPENING OF A LINE OF CREDIT TO BENEFICIARY COUNTRIES WHEN EXPORT RECEIPTS TO THE COMMUNITY FALL, DURING A GIVEN PERIOD, BELOW THE LEVEL OF THEIR REFERENCE VALUE. THIS CREDIT WOULD BE REIMBURSABLE WHEN THESE EXPORT RECEIPTS ONCE AGAIN EXCEED THE REFERENCE VALUE LEVEL. SUCH REIMBURSEMENTS WOULD BE REQUIRED ONLY TO THE EXTENT THAT THE INCREASE IN THESE RECEIPTS IS DUE TO AN INCREASE IN WORLD PRICES AND WOULD BE IN PROPORTION TO THIS INCREASE. THE BENEFICIARY COUNTRY WOULD BE RESPONSIBLE FOR GUARANTEEING THE AVAILABILITY OF THESE ADDITIONAL RECEIPTS. UNDER CERTAIN CIRCUMSTANCES AND FOR CERTAIN PRODUCTS AND COUNTRIES, THE TRANSFER COULD BE MADE ON A NON-REIMBURSABLE BASIS. THIS WOULD BE THE CASE FOR THE LEAST DEVELOPED ASSOCIATE COUNTRIES.

(4) THAT THE DETERMINATION OF THE CONDITIONS AND UTILIZATION OF THE TRANSFERRED RESOURCES WOULD BE AGREED TO BY THE CONTRACTING PARTIES. UNQUOTE

5. THE COMMISSION SUGGESTS THAT THE FOLLOWING PRODUCTS, BASED ON (1) THEIR IMPORTANCE TO THE ECONOMIES OF POTENTIAL BENEFICIARY COUNTRIES AND (2) THE DEGREE OF INSTABILITY OF THEIR MARKET BE CONSIDERED FOR INCLUSION IN THESE SPECIAL ARRANGEMENTS: SUGAR, PEANUTS, PEANUT OIL, COTTON, CACAO, COFFEE, BANANA AND COPPER.
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6. QUOTE FOR EACH PRODUCT, THE REFERENCE PRICE TO BE CONSIDERED EACH YEAR, EXPRESSED IN UNITS OF ACCOUNT, WOULD BE CALCULATED ON THE BASIS OF THE MOVING AVERAGE OF WORLD PRICE DURING, FOR EXAMPLE, THE FIVE PREVIOUS YEARS (BASED EITHER ON A CALENDAR OR CROP YEAR BASIS). WHERE A WORLDWIDE AGREEMENT IS ALREADY IN EXISTENCE
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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 06 APR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973MANILA03912
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730435/aaaahthu.tel
Line Count: 163
Locator: TEXT ON-LINE
Office: ACTION TRS
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 MANILA 2249
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 03 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03-Dec-2001 by shawdg>; APPROVED <22 FEB 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 971203
Subject: CURRENCY REALIGNMENT
TAGS: EAID, EFIN, RP
To: MANILA
SECSTATE WASHDC
TRSE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005